

Fiscal Years 2012-2014 Biennial Budget Summary

Caboose Budget Bill

- Focuses on technical changes necessary to accommodate the reforecast of certain service demands and unforeseen costs for the remainder of the current biennium
- Includes appropriations for select items that were reserved from last year's surplus. These include:
 - \$67.2 million for transportation
 - \$30 million for the Federal Action Contingency Trust (FACT) reserve
 - \$8.9 million for interest to the federal government on the Unemployment Compensation Trust Fund
 - \$7.5 million to meet our BRAC commitments for Oceana Naval Air Station
 - \$7.4 million in supplemental funding for local sheriffs' offices
- Overall, general fund spending in the Caboose Budget Bill declines by \$157.8 million
- Available general fund resources increase by \$386 million primarily due to the balance carried forward from last year's surplus and an additional \$131 million from the revised general fund forecast for FY2012
- The unexpended general fund balance in the Caboose Bill is \$546 million, which is carried forward through the next biennium as a beginning balance.

2012-2014 Biennium Budget

- Equals \$84.9 billion for state government operations
 - General fund makes up approximately 41% or \$34.5 billion of this figure
 - Non-general fund portion is about 59% or \$50.3 billion
- General fund resources (including balance, revenue and transfers) exceed spending for the biennium.
- The unappropriated balance remaining on June 30, 2014 is \$31.4 million, which is significantly greater than the \$5 to \$10 million that is normally left on the bottom line, reflecting the need for a greater cushion given the economic uncertainty.
- Will be supported by a bill to update our fixed-date conformity to the Internal Revenue Code will adjust our income tax structure for federal tax provisions enacted during 2011. This will conform to the temporary increase in the federal earned income tax credit reducing our FY2013 general fund revenues by \$7 million
- Recommends that we fully conform to Section 199 Internal Revenue Code provisions for fiscal year 2013, which allow a deduction of 9% for certain expenses involved in domestic production activities. This policy change will reduce revenues by \$10 million.
- Takes into consideration the reenactment of Chapter 723, 2011 Acts of Assembly, which increases the amount of credit an individual may claim for long-term care insurance premiums from 15% to 30% of the amount paid. This will reduce general fund revenues by \$1.2 million in each year of the next biennium.

VRS Funding

- There is a critical need to fund VRS.
- As of the June 30, 2011 valuation, the funding status of the retirement system was 70.6% for state employees and 66.6% for teachers.
- According to JLARC's review of state and local retirement benefits released Dec. 12, 2011, VRS projections are that funded ratios for state employees' and teachers' plans could reach lows of 63% and 61%, respectively, in 2013.
- From 2009 to 2011, the gap between the VRS liabilities and assets on hand to pay such liabilities increased 69%, from \$11.8 billion to \$19.9 billion. This gap is due in large part from a lack of funding prior to this administration and the VRS board's recent lowering of the board's investment rate assumption from 7.5% to 7.0% ,which is a more conservative assumption on rate of return.
- Fully funds the regular contribution rates assuming 8.0% rate of return, 2.5% inflation, and 30-year amortization
 - These are the same assumptions as used by the VRS actuary, with the exception of the rate of return which is set at the level normally used by the General Assembly.
- The total VRS rate is 8.76% for state employees and 11.66% for teachers, of which 1.0% and 1.4%, respectively, are included for the payback of deferred contributions
- These numbers speak to total employer contributions not increases or incremental changes. These numbers also assume payroll for state employees as of July 1, 2011 and total creditable compensation for teachers for fiscal year 2011. The data are for employer contributions, which do not include contributions from state or local employees.
- Total Employer Contributions to VRS for FY2013 and FY2014 will be \$2.21 billion (\$875.9 million GF). Specifically, VRS will receive total employer contributions of \$596.9 million (\$270.3 million GF) for state employees and \$1.61 billion (state and local) (\$605.6 million GF) for teachers during this upcoming biennium.
- This is the largest employer contribution to VRS in history
- Payback of Deferred Contributions to VRS for FY2013 and FY2014 will be \$264.5 million (\$104.7 million GF), which is included in the total employer contributions described above. Specifically, VRS will receive payback of deferred contributions of \$67.1 million (\$30.4 million GF) for state employees and \$197.4 million (\$74.3 million GF) for teachers during this upcoming biennium.
- This budget fully funds the first two installments of the 10-year payback of deferred contributions.
- This proposed total employer contribution of \$2.21 billion to VRS for FY2013 and FY2014 will be the largest total employer contribution to the Virginia Retirement System of any two-year period in history.
- The \$2.21 billion in employer contributions being recommended to VRS for FY2013 and FY2014 marks a significant additional commitment compared to FY2011 and FY2012 contribution total for state employees and teachers, which totaled \$915.2 million. Specifically, for FY2011, total employer contributions to VRS totaled \$74.1 million for state employees and \$271.3 million for teachers. In FY2012, it is estimated that total contributions will be \$108.5 million for state employees and \$461.3 million for teachers.

- Of the total employer contributions set forth above, localities, as employers, will be making significant contributions toward VRS solvency for their teachers and local employees.
- Previously, the next largest total employer contributions for state employees and teachers took place during FY2007 and FY2008, which totaled \$1.72 billion, compared with the recommended \$2.21 billion for FY2013 and FY2014.

Higher Education

- There is no more important investment Virginians can make than in the future of those students who are currently studying to become the next leaders of this great Commonwealth.
- Comparing FY 2004 to the introduced FY 2014 budget, general fund support for educational and general activities in public institutions of higher education will have increased by 19.5 percent. During that same time period, student enrollment is expected to grow by more than 25 percent, and the percentage of general fund support to non-general fund support (tuition and fees) going toward academic activities will decrease from 48.4% to 26.5%.
- The Top Jobs legislation unanimously passed by the General Assembly in 2011 with broad bi-partisan support provided the roadmap to success, and this year's budget will dramatically increase higher education funding for the first time in a decade.
- As directed by the Top Jobs legislation, public higher education institutions have developed six-year plans that identify the various initiatives they could pursue to help enhance retention and graduation rates, encourage more STEM and underrepresented graduates, enhance research and support economic development, as well as identify ways to become more efficient in their operations.
- It is now time for our government to invest the resources needed to ensure the success of this partnership.
- The proposed budget includes \$100 million per year to enhance studies in science, technology, engineering, math and healthcare (STEM-H), to make college degrees more affordable for students and public and private universities, and to further the goal set last year to award 100,000 new degrees in the next 15 years.
- It removes a \$10 million per year budget reduction that was to be imposed on the state's public higher education institutions.
- From the \$100 million in new money each year, the following areas are funded:
 - \$25.5 million per year to provide additional support for public higher education institutions' base operating costs
 - \$20.4 million per year as incentive funding in support of public higher education institutions' efforts to graduate students, especially if those students are STEM-H majors, graduate in less time than normal, and are considered an underrepresented group based on age and income
 - \$16.2 million per year to account for enrollment growth by public higher education institutions between academic year 2009-10 and academic year 2010-11, representing more than 8,400 more students

- \$12.4 million per year to support cancer and high-tech research at our higher education institutions, as well as funding for competitive research grant awards
- \$8.2 million per year to support other STEM-H related initiatives at entities that support higher education
- \$6.4 million per year to increase financial assistance to students
- \$5.8 million per year to increase the Tuition Assistance Grant (TAG) award to Virginia students attending private, non-profit higher education institutions from the present \$2,650 to \$2,750
- \$5.1 million per year to support institution specific STEM-H, graduation and retention and economic development initiatives at public higher education institutions consistent with the goals in the Top Jobs legislation
- Although higher education receives no reductions the proposed biennial budget, it does direct each public higher education institution to set aside the equivalent of three percent of its general fund support for educational and general operations (\$34.7 million) in FY 2013 and five percent (\$57.8 million) in FY 2014 to reallocate toward the goals of the Top Jobs legislation.
- This funding will be released to the schools once they have a plan approved by the Secretary of Education on how they plan to utilize this funding in support of Top Jobs.

K-12 Education Funding

- We cannot expect to grow our economy in the future if we do not educate our children today.
- The proposed budget provides an additional \$438 million in total new funding for public education for the next biennium.
- This funding recognizes the rising costs of the Standards of Quality and demonstrates our commitment to make significant investments in the retirement system for teachers.
- The proposed budget identifies more than \$1.6 million dollars each year that will be redirected to new programs to be more effective at reaching those children who are most at-risk.
- Beginning with this budget, we are going to get serious about measuring the return on our investment of taxpayer dollars by requiring all school divisions to report the percentage of spending on instruction
- The proposed budget provides funding to support the transition to new performance-based evaluation models for our public schools.
- Total funding for public education has outpaced enrollment growth significantly using the time period of FY2002-2011 as used by the recent JLARC review. During this time period, the public education direct aid appropriation grew by 41% and unadjusted ADM enrollment grew by 6%, which resulted in funding 6.8 times the rate of enrollment growth.

The budget includes:

- \$913,016 in each year of the biennium to pay the testing fees for all 10th grade students enrolled in a public school in Virginia to take the Preliminary SAT exam
- \$1,000,000 in each year of the biennium for Communities in Schools
- \$308,655 in each year of the biennium to provide support grants to school divisions for standard diploma graduates
 - As part of this effort, the Department of Education will be reducing the types of diplomas offered in Virginia from seven to three – standard, advanced and special diplomas
- Reform initiatives for K-12 education that focus on performance by requiring the Department of Education to include in the annual School Performance Report Card for school divisions the percentage of each division's annual operating budget allocated to instructional costs
- \$300,000 in fiscal year 2013 and \$400,000 in fiscal year 2014 to establish a comprehensive pilot initiative to recruit students to major in the fields of mathematics and science to help alleviate the shortage of qualified teachers in these fields
- \$500,000 in fiscal year 2013 and \$100,000 in fiscal year 2014 to fund a pilot initiative to attract, recruit, and retain high-quality diverse individuals to teach science, technology, engineering, or mathematics (STEM) subjects in Virginia's middle and high schools
- \$80,000 in fiscal year 2013 to provide one-time planning and implementation grants to support the establishment of Governor's Health Science Academies
- \$67,897 in each year of the biennium to support implementation of a Youth Development Academy pilot program for rising 9th and 10th grade students in a selected region of the Commonwealth
- \$325,000 in each year of the biennium for the Virtual Virginia program to support the statewide implementation of the required Economics and Personal Finance course, ensuring that sufficient student slots are available to accommodate statewide demand for the course. This increase is being supported by the transfer of funding from the Mentor Teacher in Hard-to-Staff Schools account, which is being eliminated.
- \$385,138 in each year of the biennium to address an increase in GED testing costs. This increase is being supported by the transfer of funding from the Mentor Teacher in Hard-to-Staff Schools account, which is being eliminated.

Health and Human Resources

Medicaid Utilization and Inflation

- DMAS / Medicaid GF appropriation has grown from \$1.57 billion in FY2002 to \$2.82 billion in FY2011, a growth of 80%.
- This compares to CPI-based inflation of 25.8% over the period and an indexed medical inflation of 44.2% over the same period.
- Virginia's population grew at 10% in the same period
- State expenditures for Medicaid has increased 96% from FY 2002 to FY 2011. Without the enhanced federal match in FY 2011, this growth rate would have been 139%. For comparison, medical inflation has increased 44% over the same period.
- Medicaid's share of state GF expenditures has grown from 15.8% in FY 2002 to 19.5% in FY 2011.
- Medicaid enrollment is projected to increase 1.7% in FY 2013 and more than 40% in FY 2014 due to Federal Health Care Reform.
- The 35.8% growth in GF spending for Medicaid that is not tied to inflation is due to policy changes (additional and expanded waiver services, community mental health services, provider rate changes, etc.) and to increased utilization.
- The proposed budget includes:
 - \$173 million GF in FY 2013 and \$477.5 million GF in FY 2014
 - \$650.5 million GF for the biennium
 - General fund growth of 11.4% in FY 2013 and 8.0% in FY 2014
 - Total fund growth of 23.4% in FY 2014 due to federal Health Care Reform (Federal government pays 100% of new the cost of the new population)
- Managed care will expand to 24,000 individuals in the Roanoke area on January 1, 2012 and to 49,000 individuals in Southwest Virginia on July 1, 2012. These expansions are projected to save \$5.5 million GF in FY 2013 and \$6.2 million GF in FY 2014.

Federal Mandates

The budget includes:

- \$6.7 million GF in new funding to address federal mandates.
 - \$3.1 million is required to comply with federal provider screening regulations as required by the Affordable Care Act which adds \$1.1 billion in federal funds due to the expansion of Medicaid on Jan. 1, 2014 to all adult individuals with income up to 133 percent of the federal poverty level. It is estimated that this will add over 400,000 Virginians to Medicaid.
- Federal funding of \$108.5 million for a rate increase for primary care doctors is included in 2013 and 2014
- \$3.1 million to conduct an eligibility review as part of the federal Payment Error Rate Measurement program
- \$529,668 for federally-required changes to the Medicaid Management Information System to update code sets used for claims processing

Provider Rates

- Normal inflation for hospitals, nursing facilities, outpatient rehabilitation facilities, and home health providers are withheld.
- There are no provider rate reductions in this budget.
- The rental rate floor used for nursing facility capital rental rates is allowed to increase from 8.0% to 9.0%, which will increase reimbursement to nursing facilities by \$10 million (\$5.0 million GF) a year.
- Primary care rates for physicians are increased to the Medicare rate beginning Jan. 1, 2013, through Dec. 31, 2014, as a result of the Affordable Care Act. The federal government is paying 100% of the costs. Federal funds of \$108.5 million are included in the budget for this.

Behavioral Health

- Over the last 10 years, general fund spending for behavioral health, substance abuse and intellectual disability services has grown from just over \$406 million in FY 2002 to \$543 million in FY 2011.
- In that time, there has been a concerted effort to decrease reliance on institutional settings and increase the availability of community services through the community services boards and the use of Medicaid waiver program.
- The introduced budget continues our commitment to improving services for the developmentally disabled and reducing census in state facilities.
- An additional \$30 million is to be deposited into the Behavioral Health and Developmental Services Trust Fund to expand access to community-based services, including additional home and community-based waiver slots and other transitional services aimed at moving individuals out of state training centers and into more integrated settings.
- The Department of Behavioral Health and Developmental Services is actively working to identify those individuals in state facilities who have expressed a desire to move into the community and, with the approval of the Secretary of Health and Human Services, will secure additional waiver slots as needed.
- Combined with the funds provided in fiscal year 2012, the state will have the resources to make significant progress in reforming our system of care while negotiations with the Department of Justice continue.
- \$6.4 million is provided to continue operation of the Virginia Center for Behavioral Rehabilitation, which continues to grow at a rate of five admissions per month.

Department of Health:

- State funding for health safety net providers has increased by 20.2% from 2002 to 2011 (please note that in FY13, some are cut 2% and in FY14, all are cut 50%.)
- The introduced budget includes \$1.1 million in state funding to address the shortage of medical facility inspectors. The additional funding allows the Virginia Department of Health to hire 13 full-time medical facility inspectors.

Public Assistance Eligibility Systems

- \$10.8 million is provided to complete the modernization of the Commonwealth's social services eligibility systems. The general fund investment will draw down an estimated \$52.8 million in federal dollars over the 2012-2014 biennium.
 - Current eligibility systems being used by local departments of social services are more than 20 years old and are running on obsolete technology.
 - The existing system is both difficult for local eligibility workers to use and programmers to maintain; factors that have adversely impacted error rates and operational costs.
 - Initiative will address these issues by replacing the existing eligibility applications and further incorporating determinations that are currently handled off-system. The system will further improve operational efficiencies by eliminating hardcopy workflow and storage through the use of document imaging.
 - The implementation of this project is a critical component of the state's plan to meet eligibility workload pressures associated with servicing over 400,000 additional Medicaid applicants as a result of federal health care reform.
 - The timing of the project also serves to considerably reduce its general fund cost as several of its components are expected to be eligible for 90 percent federal cost sharing.

Child Welfare Services (Adoption Subsidies)

- Over the past six years, statewide adoptions have increased 21.2% while the foster care caseload has decreased more than 24% over the last five years.
- State support is provided (\$6.4 million in FY 2012 and \$8.4 million in each year of the biennium) to ensure that the adoption subsidy program has sufficient funding to meet anticipated expenditures for the next three fiscal years.
- Expenditures in the adoption program represent the costs of contractual obligations with adoptive parents.

Supplemental Nutrition Assistance Program (SNAP) – Formerly Food Stamps

- The introduced budget includes funding to support the electronic benefits transfer (EBT) transactional cost associated with providing Supplemental Nutrition Assistance Program (SNAP) benefits due to an increasing caseload.
- In addition, one-time funding is provided to spread out the issuance of Supplemental Nutrition Assistance Program (SNAP) benefits over seven calendar days with payments occurring every three days (on the 1st, 4th and 7th days of the month). Implementing multiple benefit disbursements each month will relax the pressure on retailers and allow inventory to be replenished between SNAP issuances.

Comprehensive Services Act:

- Spending for the Comprehensive Services Act continues to slow due to reforms over the last several years and efforts by local governments to concentrate on keeping youth in the community.
- As a result, the state is able to recoup \$24.8 million appropriated for services in FY 2012, and an additional reduction of \$22.4 million in the next biennium to reflect a significant reduction in anticipated expenditures.

Public Safety

- From FY 2004 to the introduced FY 2014 budget, state general fund support for public safety has grown by 24%, while state support for sheriffs and commonwealth's attorneys has grown by 27%.
- Much of this growth occurred between FY 2005 and FY 2009, resulting primarily from a steadily growing inmate population and the resulting need for new prison and jail space, increasing support for law enforcement, and the costs of salary increases before FY 2009 for the large number of employees working in law enforcement and corrections.
- Since FY 2009, growth has either leveled off or decreased due to the leveling of the number of state inmates, and even a decline in juvenile offenders and local responsible inmate populations consistent with the lower rates of crime
- Because of the leveling off of the state inmate population while new prison and jail capacity has been built assuming a growing inmate population, the state has been able to close a number of correctional facilities.
- The proposed budget includes modest funding for additional state troopers, as well as additional jail per diem funding and operating costs for a new regional jail.
- It also includes the closing of the Mecklenburg Correctional Center, one of our most expensive older prisons to operate on a per inmate basis.
 - Although every effort is being taken to find alternative jobs for the employees of this prison, as well as focusing other job growth efforts in that area, the reality is that this prison was not presently needed given the state's available prison capacity and expected inmate population.
- Budget also includes an additional \$11.7 million in FY 2013 for facilitation of legislation that will be proposed by the Governor to increase penalties for repeat drug dealers

Economic Development

- Since the beginning of this administration, more than \$5.5 billion in private capital investment has been committed to be added in the Commonwealth and Virginia has added 62,800 net new jobs.
- More than 6,000 of these jobs are in the Southwest and the Valley and more than 18,500 are in the Northern Virginia.
- In order to continue to create new jobs in Virginia, over the last two years, an additional \$100 million has been added to the budget for targeted economic development efforts.
- The proposed budget includes:
 - \$40 million to help continue our economic development efforts
 - \$10 million over the 2012-2014 biennium to implement an innovative program to encourage collaborative research in the biosciences involving a research consortium to be initially comprised of the University of Virginia, Virginia Commonwealth University, Virginia Polytechnic Institute and State University, George Mason University and the Eastern Virginia Medical School, which will contact with private entities, foundations and other governmental sources to

- capture and perform cutting-edge research in the areas of cancers, infectious diseases, neurodegenerative disorders and allergy and inflammatory diseases.
- \$2 million to the Major Employment and Investment Project Site Planning Grant Fund to help local governments attract new investment. Additional
- An additional \$2 million in each fiscal year to support non-credit courses in the Virginia Community College System and an additional \$250,000 in each year for the Jobs for Virginia Graduates Program.
- \$2 million for an advanced manufacturing development, training and marketing program for the skills necessary to support workforce development by the Tobacco Commission and the Commonwealth Center for Advanced Manufacturing
- \$2 million over the biennium to support the Governor's Agriculture and Forest Industries Development Fund which is tailored to the unique characteristics of the agriculture and forestry industries.
- \$2.3 million in funding to improve the Commonwealth's marketing to the cyber security industry and for modeling and simulation to foster growth and diversification by leveraging resources from a variety of existing sources to support research and outreach activities.
- \$61.9 million to meet current existing business commitments and grants that started before and during the last two years

Natural Resources

Water Quality

- Included in the budget are actions to improve water quality in Commonwealth waters positioning Virginia to achieve TMDL (Total Maximum Daily Load) goals reflected in Virginia's Watershed Implementation Plan as submitted to the federal Environmental Protection Agency.
- Most notably, the budget includes the \$50.3 million in general fund appropriation for the mandatory deposit to the Water Quality Improvement Funds (WQIF) within the Department of Conservation and Recreation (DCR) and the Department of Environmental Quality (DEQ).
 - Of the total \$50.3 million, 90%, or \$45.3 million is designated for help with the abatement of point source pollution (wastewater)
 - 10%, or \$5.0 million, for non-point source pollution (such as run off or indirect pollution)
 - The budget designates the full \$5.0 million WQIF deposit in the Department of Conservation and Recreation for deposit to the Natural Resources Commitment Fund for the Virginia Agricultural Best Management Practices Cost Share Program.
- In addition, to help localities with planning for implementing stormwater management mandates, we will use current and unobligated cash balances in the Water Quality Improvement Fund reserve (approximately \$5.0 million) for technical assistance to be provided for land conservation.

Land Preservation

- In order to help preserve and protect Virginia's lands for future generations, included in the current budget and continued for the next two years is \$5.0 million for land conservation in the Virginia Land Conservation Fund.
- An additional \$2.0 million over the biennium will be deposited to the Civil War Site Preservation Fund for grants to purchase (and to ensure permanent protection of) battlefield lands and easements.
 - These monies will allow the Department of Historic Resources to leverage more than \$1.0 million each year in matching federal grants and private donations to preserve important battlefield lands.

State Employees Compensation and Benefits

Bonus

- Proposed budget includes provisions for up to a 3% bonus to full-time state employees on Dec. 1, 2012.
- Full-time employees must be employed by the Commonwealth as of April 1, 2011, and still employed as of November 24, 2012, must have received at least a "meet expectations" rating in their latest performance evaluation and have no active standards of conduct violations
- Statewide discretionary unspent general fund appropriations on June 30, 2011 must meet or exceed twice the general fund cost of the bonus
- This provides an incentive for state agencies and their employees to find ways to make government more efficient and will prevent the unnecessary expenditure of funds toward the end of the fiscal year.
- Cabinet secretaries will set savings targets for agencies within their secretariat. Each agency will be responsible for funding the bonus out of its unspent discretionary appropriations.

Health Insurance

- The proposed 2012-2014 budget includes funding that recognizes the end of the subsidy that has artificially kept employer and employee premiums lower than they would have otherwise been.
- The Commonwealth has been extremely successful in controlling state employee health care costs. Consequently, there will only be minimal increases in employee health care premiums.
- The total funding recommendation for the biennium is \$100.3 million from the general fund.
- The budget provides for only minor changes in employee health care, some cost containment actions, eliminating co-payments for diabetes medications and supplies, and providing coverage for annual eye exams for those with expanded benefits.
- There are no increases to employee deductibles or copayments.

Transportation

The governor's proposed 2012 legislative plan for transportation includes the following NGF budget action to promote transportation investment:

- Increasing the dedicated transportation allocation of the sales tax from .5% to .75% over the next 8 years.
- During the upcoming budget, the dedicated sales tax percentage will be increased to .55%, generating over \$110 million in new transportation funding for maintenance.
- In addition to the above proposed legislation, the Caboose budget bill for FY2012 recommends \$67.2 million for the Virginia Transportation Infrastructure Bank from the FY2011 GF surplus as required by applicable Code.